

Message Text

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DRAFTED BY: TRSY:OS:MFEINBERG

APPROVED BY: EB/IFD/OMA:J. KRIZAY

TRSY:OS:RPATRICK

L:L/T:WWMCQUADE

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R 141355Z MAR 74

FM SECSTATE WASHDC

TO AMEMBASSY SEOUL

UNCLAS STATE 051008

E.O. 11652: N/A

TAGS: EFIN, KS

SUBJECT: INCOME TAX TREATY

REF: SEOUL 01541

A LETTER WAS SENT DECEMBER 4, 1973 FROM ROBERT PATRICK, INTERNATIONAL TAX COUNSEL, U.S. TREASURY, TO OH YUN LAH, DIRECTOR TAX SYSTEMS BUREAU, MINISTRY OF FINANCE NOTING THAT TREASURY HAD TRANSMITTED TREATY DRAFT TO STATE WITH RECOMMENDATION THAT IT BE SIGNED, AND ASKING THAT KOREA RECONSIDER TEXT OF EXCHANGE OF NOTES TO ACCOMPANY TREATY DEALING WITH INVESTMENT INCENTIVES.

LETTER EXPRESSED FEELING THAT PREVIOUSLY AGREED DRAFT OF NOTE MIGHT PROVOKE CONTROVERSY, IN LIGHT OF ATMOSPHERE IN U.S. SENSITIVE TO U.S. INVESTMENT ABROAD, AND THIS CONTROVERSY COULD HAVE NEGATIVE IMPACT ON SENATE CONSIDERATION OF TREATY. KOREA, THEREFORE, ASKED TO APPROVE U.S. PROPOSAL FOR REVISION IN ORDER TO EXPEDITE APPROVAL OF TREATY.

NO RESPONSE HAS BEEN RECEIVED TO PATRICK LETTER. EMBASSY
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REQUESTED TO FOLLOW UP.

U.S. PROPOSED REDRAFT OF NOTE, AS SENT TO LAH, AS FOLLOWS:

"I HAVE THE HONOR TO REFER TO THE PROPOSED INCOME TAX TREATY BETWEEN THE GOVERNMENTS OF KOREA AND THE UNITED STATES. DURING THE COURSE OF THE NEGOTIATIONS LEADING UP TO THE PROPOSED TREATY THE KOREAN DELEGATION STRESSED THE NEED FOR INCREASED UNITED STATES INVESTMENT IN KOREA AND URGED THE INCLUSION OF PROVISIONS IN THE TREATY THAT WOULD CONSTITUTE SPECIAL INCENTIVES TO PROMOTE THE FLOW OF U.S. CAPITAL AND TECHNOLOGY TO KOREA.

THE U.S. DELEGATION WAS UNABLE TO AGREE TO SUCH PROVISIONS, BUT I WANT TO ASSURE YOU THAT MY GOVERNMENT RECOGNIZES THE IMPORTANCE WHICH YOUR GOVERNMENT PLACES ON INCREASED INVESTMENT IN KOREA. ACCORDINGLY, WHEN CIRCUMSTANCES PERMIT, MY GOVERNMENT WILL BE PREPARED TO RESUME DISCUSSIONS WITH A VIEW TO INCORPORATING PROVISIONS INTO THIS CONVENTION THAT WILL MINIMIZE THE INTERFERENCE OF THE U.S. TAX SYSTEM WITH INCENTIVES OFFERED BY THE GOVERNMENT OF KOREA AND THAT WILL BE CONSISTENT WITH THE INCOME TAX POLICIES OF THE UNITED STATES GOVERNMENT REGARDING OTHER DEVELOPING COUNTRIES."

KOREAN LANGUAGE TEXT OF PROPOSED TREATY, BEING COMPARED BY LS AT PRESENT, MUST BE CLEARED AND THE MATTER OF RELATED NOTE DISCUSSED ABOVE MUST BE RESOLVED BEFORE SIGNING DATE CAN BE ESTIMATED. KISSINGER

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